

Message Text

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62

ACTION EB-11

INFO OCT-01 EA-11 ADP-00 AGR-20 CIAE-00 COME-00 INR-10

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R 161012Z AUG 73

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 7374

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E O 11652: N/A

TAGS: ETRD, RP

SUBJ: PROPOSED TEXTILE DISCUSSIONS

REF: STATE 143390

BEGIN SUMMARY: TOUR D'HORIZON OF TEXTILE POLICY DISCUSSED WITH FINSEC VIRATA, WHO WILL CONSULT WITH INDUSTRY. BOARD OF INVESTMENTS CHAIRMAN PATERNO IS UNDERTAKING EXTENSIVE DATA ANALYSIS OF TEXTILE TRADE, PARTICULARLY "EMBROIDERY" REEXPORTS, FOR JOINT REVIEW WITH EMBASSY TO ESTABLISH UNIFORM DATA BASE. EXPANDING PHILIPPINE INDUSTRY HAS POTENTIAL FOR SHARP INCREASE IN EXPORTS TO U.S., BUT BECAUSE OF CHANGED MARKET CONDITIONS BULK OF PRODUCTION INCREASES MAY IN FACT BE MARKETED ELSEWHERE. WHILE TRENDS NOT YET CLEAR, EMBASSY BELIEVES BOARD OF INVESTMENTS HAS NECESSARY LEVERS TO MODERATE EXPORT GROWTH TO US. END SUMMARY

1. SUBJECT REFTEL DISCUSSED WITH FINSEC VIRATA AUGUST 13 IN CONTEXT REVIEW HIS RECENT WASHINGTON TRIP. IT RECALLED THAT VIRATA HIMSELF RAISED POSSIBLE IMPLICATIONS RAPID GROWTH IN SYNTHETIC FIBER EXPORTS WITH EC/COM COUNSELOR MORE THAN YEAR AGO. OBJECTION OF OTHER SUPPLIERS WHO ARE UNDER LIMITATIONS WAS SUGGESTED AS ONE POSSIBLE EFFECT OF RAPID GROWTH AT THAT TIME. MAIN POINTS REFTEL THEN COVERED IN OUTLINE AND INTEREST IN POSSIBLE TOUR OF THE HORIZON IN TIME

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FRAME NEXT TWO MONTHS PUT FORWARD BUT NOT PRESSED.

2. VIRATA INDICATED THAT HE WOULD HAVE TO EXPLORE WITH INDUSTRY WHETHER ALL-FIVER TYPE AGREEMENT DESIRABLE, AND SUGGESTED THAT EMBOFFS TOUCH BASE WITH UNDERSEC PIO DE RODA WHO PROBABLY WILL DO ACTUAL EXPLORING. HE REMAINED NON-COMMITTAL THROUGHOUT ABOUT WHAT RESULTS EXPLORATION MIGHT BE. VIRATA INQUIRED WHETHER NECESSARY DISTINCTIONS RESPECTING FABRICS BROUGHT IN FROM US FOR PROCESSING MIGHT BE MADE IN SUCH AN AGREEMENT. HE POINTED OUT THAT IN GARMET FIELD MOST NEW INVESTMENT BEING MADE BY US SUBSIDIARIES, AND THEN ASKED WITH ONLY MILD HUMOR WHETHER PENDING US INVESTMENTS IN SYNTHETICS SHOULD BE DISCOURAGED, SINCE, HE SAID, JAPANESE AND OTHERS HAD BEEN DISCOURAGED BY GOP RESPECTING PRODUCTION IN PHILIPPINES FOR US MARKET.

3. DETAILED REVIEW OF TEXTILE TRADE ISSUES ALSO MADE WITH BOI CHAIRMAN PATERNO AUGUST 15, COVERING GROUND SIMILAR TO THAT WITH VIRATA. PATERNO EXPRESSED VIEW THAT GROWTH RATE FOR EXPORTS TO ALL DESTINATIONS LIKELY TO BE GREATER IN COMING YEAR THAN IN PAST TWO YEARS BUT THAT EXPORTS TO COUNTRIES OTHER THAN US ARE GROWING MORE RAPIDLY THAN THOSE TO US. HE WILL HAVE BOI UNDERTAKE EXTENSIVE ANALYSIS OF TRADE DATA, ESPECIALLY TO QUANTIFY EXTENT TO WHICH US AND THIRD COUNTRY TEXTILES ARE INVOLVED IN "EMBROIDERY" PROCESSING AND REEXPORT TO US. HE WISHES REVIEW DATA WITH EMBASSY IN 2-3 WEEKS' TIME TO ENSURE THAT BOTH SIDES ARE PROCEEDING FROM AN AGREED INFORMATION BASE.

4. EMBASSY NOTES THAT MARKET PATTERNS HAVE CHANGED WITH DRAMATIC SUDDENNESS IN PAST SIX MONTHS, AND BELIEVES RESPONSE OF PHILIPPINE OFFICIALS TO SUGGESTED TOUR D'HORIZON WILL DEPEND IN PART ON HOW GOVERNMENT AND INDUSTRY EVALUATES KALEIDOSCOPIC PATTERN OF DEVELOPMENTS. PRINCIPAL ELEMENTS IN CURRENT SITUATION ARE AS FOLLOWS:

A. COMBINATION OF DEVALUATIONS/REVALUATIONS AND HIGH WORLD PRICES OF SYNTHETIC FIBERS HAS MADE PHILIPPINE INDUSTRY COMPETITIVE FOR FIRST TIME IN DECADE. EXPORTING HAS NOW BECOME PROFITABLE, AND BOARD OF INVESTMENTS HAS EMBARKED ON ACTIVE PROGRAM TO ENCOURAGE TEXTILE EXPORTS. AT SAME TIME, LIMITED OFFICIAL USE

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BECAUSE PHILIPPINE INDUSTRY NOW COMPETITIVE, SMUGGLED TEXTILE IMPORTS NO LONGER ATTRACTIVE, AND DOMESTIC INDUSTRY IS BENEFITING FROM SUDDEN SURGE IN DOMESTIC DEMAND. SALES TO DOMESTIC MARKET MORE ATTRACTIVE THAN EXPORTS, AND, ACCORDING ONE SOURCE, MANY FIRMS WOULD SWITCH SALES TO DOMESTIC MARKET WERE IT NOT FOR BOI PRESSURES TO EXPORT.

B. INDUSTRY UNDERTAKING MAJOR EXPANSION TO SUPPLY FOREIGN

AND DOMESTIC DEMAND, BUT AT SAME TIME, TIGHTNESS OF RAW MATERIALS REPORTEDLY PREVENTING MANY FIRMS FROM PRODUCING AT HIGHER LEVEL EVEN WITH EXISTING CAPACITY. TO ACQUIRE RAW MATERIALS, SOME FIRMS HAVE SWITCHED MORE HEAVILY INTO COTTON, WHILE OTHERS HAVE ENTERED INTO AGREEMENTS WITH JAPAN, WHICH IS SEEKING TO IMPORT LARGE QUANTITIES OF PHILIPPINE TEXTILES AND IS WILLING SUPPLY SYNTHETIC FIBERS TO COMPANIES WILLING COMMIT THEMSELVES TO MARKET IN JAPAN. HONG KONG ALSO PURCHASING PHILIPPINE FABRICS AS INDUSTRIES THESE TWO COUNTRIES REPORTEDLY INCREASINGLY NON-COMPETITIVE FOLLOWING REVALUATIONS.

C. LOCAL GARMET MANUFACTURERS, DEPENDENT ON LOCAL FABRICS, FIND EXPORT PLANS HAMPERED BY NON-AVAILABILITY LOCAL FABRICS. SO-CALLED EMBROIDERY INDUSTRY, COMPOSED LARGELY OF SUBSIDIARIES OF U.S. CORPORATIONS AND UNTIL NOW THE MAJOR SOURCE OF PHILIPPINE EXPORTS TO THE U.S., IS EXPANDING PRODUCTION RAPIDLY WHILE AT THE SAME TIME SWITCHING SOURCING OF MORE OF ITS RAW MATERIALS FROM THIRD COUNTRIES TO NEWLY COMPETITIVE U.S. PRODUCTION.

5. ULTIMATE EXPORT LEVEL TO U.S. WHICH WILL EMERGE FROM THIS CONFLICTING WELTER OF CROSS-CURRENTS IS BY NO MEANS CLEAR. ON HIGH SIDE ESTIMATE, GROWTH TO U.S. MIGHT MAINTAIN OR EVEN EXCEED 35 PERCENT RATE CITED REFTEL AS ANNUAL GROWTH RATE SINCE 1971, ALTHOUGH AS DEPARTMENT KNOWS GROWTH FOR FIRST FIVE MONTHS OF 1973 IS RUNNING ONLY 20-25 PERCENT ABOVE YEAR-AGO LEVELS, WHILE GROWTH RATE FOR 1972 WAS 40 PERCENT. ON LOW SIDE, GROWTH RATE MIGHT DECLINE STILL FURTHER TO 10-15 PERCENT RANGE, WITH EXPORT GROWTH GOING PRIMARILY TO JAPAN AND MUCH OF NEW OUTPUT GOING TO MEET DOMESTIC DEMAND. WE INCLINED TO THINK THAT GOP THROUGH BOARD OF INVESTMENTS HAS NECESSARY LEVERS TO VERY QUICKLY MODERATE GROWTH IN EXPORTS TO U.S. IF THAT PROVES NECESSARY.

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6. WILL REPORT ON RESULTS OF FOLLOW-UP AS SOON AS GOVERNMENT-INDUSTRY EXPLORATIONS HAVE TAKEN PLACE.
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